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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS - WEEK OF 27 APRIL - 3 MAY 1948

50

GENERALFurther evidence of central direction of FE Communist activities

The existence of some form of centralized coordinating committee to direct the activities of Far East Communist parties is now well established. It is believed that one of the early plenary sessions of this committee took place in Harbin, Manchuria, during January 1948.

It has now been learned, [REDACTED] that representatives from the Chinese Communist Party, the Mongolian Peoples Republic, and North Korea held an 8-day session with Soviet representatives in Harbin in mid-April. Chou En-lai, who reportedly acts as "foreign minister" of the Chinese Communists, and Khalin, former Soviet Consul General at Shanghai, are reported to have been present; and the alleged purpose of this meeting was "to shift the focus of the Far East Cominform from Vladivostok to Harbin." [REDACTED] a subsequent meeting, held 19-22 April, was also attended by representatives from Japan and from the Southeast Asia countries. A third international Communist gathering is reported to have taken place at Ulan Bator (Urga) on 10-12 April.

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[REDACTED] cites a Chinese Communist newspaper as saying that representatives of various Far East Communist parties (of these representatives, only Chou En-lai was mentioned by name) are due to meet late in May at Khabarovsk (425 miles north of Vladivostok).

Meanwhile, there is some recent evidence indicating that Far Eastern Communist propaganda is developing a more international "All-Asia" flavor. Japanese Communist Party backing of the recent Korean demonstrations in Japan gave that Party an occasion to air its views on US "reactionary and imperialist" policies in Korea as well as in Japan itself. Moreover, within the past few days, Chinese Communist propaganda has voiced strong charges that the "reactionaries" of Korea, China and the US have been conniving to dispatch 50,000 South Korean youths to Nationalist China, along with "US-type equipment", in order to give them actual combat experience against "the Chinese people", and later fit them into "reactionary South Korean armed forces against the Korean people." Finally, the Communist-controlled South Korea Labor Party reportedly issued a set of "General Instructions" during March, which includes the statement that "the war in China is more important than the situation in Korea (and) a study of the Chinese situation is imperative."

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JAPAN



Payment restrictions on Japanese cotton trade eased. A widening of the direction of Japan's cotton textile export trade is expected to result from execution of an agreement between SCAP and the US Commercial Credit Corporation (CCC). Under former contractual arrangements, Japan was compelled to make full payment in dollars to the CCC for cotton used in Japanese-manufactured textiles that were exported, and to make such payment at the time the textile exports were sold. Because 1) the CCC has supplied about 85% of Japan's raw cotton imports since V-J day, and 2) cotton textile exports have represented Japan's chief source of foreign exchange, the former arrangements limited Japan's textile exports largely to countries willing to accept such payment in dollars.

-3-

Under the new agreement, Japan may liquidate its indebtedness to the CCC (at the present time Japan owes about \$53 million) at the rate of \$5 million per month (or above, to the extent of dollars available from the sale of these textiles). Accordingly, Japan can now sell cotton textiles for goods, or goods plus non-dollar currency, so long as dollars are made available to the CCC in the amount of at least \$5 million per month. Once the agreement is formally executed, Japan hopes to expand its exports of CCC cotton materially to such sterling bloc countries as India, Australia, New Zealand, South Africa, and Pakistan. This stimulus to sterling bloc trade will of course last only so long as CCC cotton is on hand. Like the proposed \$60 million loan against OJEIF recently announced, the new agreement is another step in the efforts to push Japan's cotton trade to these countries. (See FE/P Weekly 20-26 April 1948)

KOREA

Constitution adopted in North Korea. On 29 April the North Korean People's Council adopted the "Korean Democratic People's Republic Constitution", subject to "final approval of an all-Korean legislative assembly." This limitation legalistically gives the USSR protection in case of international challenge that it has taken unilateral action in Korea. However, the terms of the Constitution itself provide for the establishment of a "Democratic People's Republic" in North Korea until such time as control can be extended to all of Korea. Moreover, the Constitution merely legalizes the institutions already existing and operative in North Korea. Hence, adoption of the Constitution at the present time means that, for all practical purposes, a "Democratic People's Republic" has been established although the "final approval" loophole makes it appear that the status of the present North Korea Government remains unchanged. Actually the way is now open for formal proclamation of the new regime at any time. Formal announcement and Soviet recognition will unquestionably await the political convenience of the USSR.

SECRET

-4-

CHINAMilitary

The Communist forces in Manchuria are still concentrated in the area surrounding Seuping where they remain inactive despite the fact that (1) they completed their regrouping and resupplying several weeks ago and that (2) mud and flood are no longer a retarding factor. US Consul General Mukden believes that when the Communists do strike (and it should be soon), their activity will be in the form of a reconnaissance in force designed to probe out Nationalist weak spots. The eventual main attack may, therefore, be directed at the beleaguered Nationalist bastion at Mukden, where the shortage of food is growing more menacing each day, or through the Chinchou sector into North China. Presently, there is some Communist activity in the area north of Chinchou while reports indicate that a Communist attack, on a limited scale, has already been launched on Tangshan, important station between Shanhaikuan and Tientsin, on the Peiping-Mukden railroad.

After a lengthy siege, the Communists finally captured Weihsien, key central Shantung city, while fighting in Fu Tso-yi's North China area was largely sporadic and inconclusive. Shensi Province was the most active theater of the civil war last week; in a move described by Marshall Ku Chu-tung as casting a "dark shadow across west China", the Communists have thrust into the Sian-Paochi area of Shensi seriously threatening Nanking's communication with China's northwest as well as its position in Szechwan. (Nationalist sources claim, however, that this offensive has been checked and that a large Communist force, now trapped, is facing annihilation.) Press reports noted the return to action of Communist units in the Shensi area, on the Yangtze River west of Hankou as the Nationalists were reputedly setting up a new command for the area south of Tungting Lake.

Political

The National Assembly concluded its month-long session on 1 May with the presentation of credentials to the new President and Vice-President. The election by the National Assembly of General Li Tsung-jen to the Vice-Presidency marks the most successful resistance to Chiang's control in the recent history of the Kuomintang. Despite Chiang's known opposition to Li's candidacy, a large number of delegates, with a show of independence, rallied to the support of Li, who campaigned on a platform of reform. Since Chiang and Li are at variance on fundamental issues, it is uncertain how long they will be able to work together. Li and his group may therefore attempt to organize the dissatisfied elements throughout China to oppose Chiang and provide new and liberal leadership. The potentials of such a movement are questionable, however, since the strength of Li's support is unknown and its capabilities untested.

A recent statement by Chen Po-ta, a member of the Chinese Communist Central Committee, explains the Party's labor and tax policy for developing both government and private industry. With the idea of expanding industrial production, the Party instructs its followers to take a lesson from private industry by adjusting wages to increase productive efficiency since political

SECRET

-5-

indoctrination does not give sufficient incentive. Worker-management agreements should be encouraged to this end. Taxes should also be adjusted to encourage production of essential producer and consumer goods. Chen Po-ta points out that the workers are the "leading class in the Chinese revolution" and that, with the liberation of more and larger cities, industry must be expanded. The policy of encouraging liberal capitalism is in line with Mao Tze-tung's speech of 25 December 1947. Other recent Party directives in this vein have called for a more moderate program in agrarian reform and a more lenient attitude toward capitalists and landowners.

Following his defeat in the election for Vice-President, Sun Fo has organized his supporters into a National Reconstruction Association, aimed at strengthening the Kuomintang. In order to attain greater discipline and organization, he has directed his followers to return to their homes and set up party cells in towns and villages.

General Roschin, new Soviet Ambassador to China, is expected to return to Nanking early in the present month, thus terminating an "interregnum" which has extended for almost a year. Roschin's return may inaugurate increased Soviet diplomatic activity in China. It is anticipated that the new envoy, (formerly Soviet Military Attache at Nanking until his recall to Moscow last January) will resume with Nationalist officials conversations concerning a possible compromise settlement with the Chinese Communists.

Over strong objections from China, the Executive Board of the UN International Children's Emergency Fund voted a \$500,000 aid program for children in Communist-controlled areas of China, on the grounds that one-third of China is involved and that the two-thirds under Nationalist control has already been allotted \$1,000,000.

The US Government on 30 April 1948 exchanged with the Chinese Government notes outlining proposals regarding the China Aid Act of 1948. The US note provided for certain requirements to be fulfilled by the Chinese Government pending the conclusion of a bilateral agreement, and emphasized that the proposals set forth in the note do not constitute an obligation on the part of the US to make "assistance" available to China. The Chinese note acknowledged China's understanding and acceptance of the US proposals.

Economic

Currency/Prices. Shanghai prices rose at a slower rate during April than in any of the previous months since November 1947. The April increase in the cost of living index was 20.7% compared with 43.7% for March, 56.8% for February, and 16% for November 1947. Wholesale commodity prices followed a similar pattern. The commodity and money market improved in Peiping following the election of Li Tsung-jen. Prices rose in Canton due to the influx of smuggled northern capital. Rationing has proved reasonably successful in Canton chiefly because of the great differential in blackmarket and rationed prices.

SECRET

-6-

The Shanghai Market	US \$ Exchange (Selling Rate)		Wholesale Price of Rice per 172 lb picul
	Official "open"	Blackmarket	
This week (30 Apr 48)	CN \$328,000	780,000	CN \$4,100,000
Week ago (23 Apr 48)	328,000	700,000	3,950,000
Month ago (30 Mar 48)	258,500	520,000	3,600,000
Year ago (30 Apr 47)	12,000	22,000	200,000

Shipping. Foreign ships are now permitted to call at Tsingtao with special Executive Yuan permission. This would boost exports, but due to Nationalist loss of Weihsien most products are presently cut off. China shipping faces curtailment due to lack of foreign exchange to buy fuel oil. US aid may possibly ease the situation.

Foreign Trade. According to the latest Customs returns China's trade deficit for February amounted to US \$1.7 million, about half the US \$3.2 million deficit in January. Both imports and exports declined in February to a relatively low level when computed in US currency, to US \$14 and 12.3 million respectively. Petroleum products led February imports while vegetable oils headed exports.

Hong Kong. The British Government is reported planning to loan 3 million pounds to Hong Kong to build a new airport capable of handling the largest planes.

-7-

SIAM

Disturbances in Southern Siam confront Phibul Government. The Malay minority problem in southern Siam has again reached serious proportions as indicated by recent reports of disturbances involving Malays and the Siamese police in Narathiwat Province. Some of the disorder results from ineffective government control, but it is believed that in some cases the incidents are incited by local Malay leaders and expatriates in northern Malaya because of the long-standing questions of Malay language instruction in schools, the utilization of Malays as provincial administrators, and the legal observance of Moslem holidays. Although police action apparently has the situation temporarily under control, the Siamese Government has indicated its concern by calling Cabinet meetings to study the situation and, according to the press, has set up a special commission to make definite recommendations on the Malay demands. However, since Premier Phibul is engrossed in more pressing problems, it is unlikely that a satisfactory settlement of this particular problem can be reached soon. Consequently, incidents of violence will probably recur until the Government is forced by circumstances either: (1) to accede to Malay demands, or (2) to embark on a program of suppression which has been the historical pattern in this area.

BURMA

Attempts to increase effectiveness of Burmese Army and Military Police. The loyalty and reliability of the Burmese Army and Military Police remains the decisive factor in the current Communist-Government struggle. Major General Smith Dun, commanding officer of the Army, has stated that out of a total of 17 battalions he considers the 3 Karen, 2 Kachin and 2 Chin battalions loyal and the 10 remaining Burman battalions to be controlled by politics. The predominantly Burman Military Police are presumably in the same category. A recent change in the cabinet was apparently designed to inspire the Military's loyalty to the Government as well as to increase its efficiency and effectiveness. Deputy Prime Minister Bo Let Ya, who is also Defense Minister, assumed the additional duties as Home Minister replacing Socialist Kyaw Nyein who was ostensibly hospitalized for tuberculosis. The significance of the change may lie in the fact that Bo Let Ya was formerly a prominent figure in the Peoples' Volunteer Organization (PVO) whereas Kyaw Nyein was the PVO's beit noir in the Government. Since a considerable part of the Military Police and some of the Army personnel are ex-comrades-in-arms in the PVO's, Bo Let Ya would be a more acceptable leader than Kyaw Nyein. In this respect the Military's capabilities may be enhanced, but if the change was made to bolster the PVO's support of the Anti-Fascist League (AFL), the Government Party, Kyaw Nyein's illness may have been a matter of convenience and a means for removing him from the Government without disturbing Socialist support of the AFL. Very little is known about Bo Let Ya but it has recently been reported that he is a man of decision, [REDACTED] and definitely anti-Communist. If these reports are correct, Bo Let Ya may emerge as Burma's strong-man.

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-8-

INDONESIA

Political agreement in near future appears unlikely. The Netherlands has attempted to dispel the Republican Government's fear that the Dutch will maintain control of Indonesia through the Netherlands-Indonesian Union (NIU) by the presentation to the GOC Political Committee of a working paper on the Union. The assurance is chiefly in the form of a statement that the Union is not to be a "super state" nor are its organs to be those of a "super government." However, there still exists wide divergence of opinion between the parties with respect to more immediate interim measures, i.e., questions of plebiscites and Republican participation in a provisional federal government. Currently, mutual distrust appears to be mounting and may prevent conclusion of a political agreement in the near future. Significantly, Vredenburg, Deputy Chairman of the Netherlands Delegation, believes that chances for such an agreement are now less than 50-50.

PHILIPPINES

Quirino may modify policy toward dissidents. President Quirino's recent public statements indicate that, while the Government is likely to deal severely with dissident leaders, there will be some modification of the late President Roxas' stern policy toward the dissident groups.

In a press interview on 22 April, the President was reported to have stated: "The late President's proclamation outlawing the Hukbalahap and National Peasants Union (PNM) only marked a stage in his policy. I intend to study the problem thoroughly but I am ready to modify it in the interests of peace and order." At a 26 April conference with provincial governors and city mayors, Quirino reduced the peace and order problem to a local issue. He said that there is peace and order in the Philippines and that "all we want to do is to restore peace in the troubled areas." He also told the officials that he would not change the recommendation of the late President Roxas for a special US \$2 million peace and order fund. On 29 April the President made an unannounced inspection trip through four Central Luzon provinces (sometimes called "Huklandia") for the avowed purpose of collecting data in order to formulate the best method of utilizing the peace and order fund which the House Appropriations Committee on 30 April transferred from the Secretary of the Interior to the President's office. The President held a press conference immediately following his return and stated that negotiations would not be resumed with Luis Taruc, Huk leader, and that he would be "stiff" with those who persist in defying the Government. Quirino indicated, however, that he would make an "oblique approach" to the dissident problem employing social, economic, and ideological measures as well as force. He stated that, as a result of personal observations, he was planning a definite course of action to consist of: (1) returning "displaced" persons who have left their homes and farms in fear of the Huks; (2) guaranteeing full protection by law enforcement agencies to these people;

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PHILIPPINES (continued)

(3) providing work and employment for displaced persons; (4) returning local officials, who had abandoned their posts because of dissident threats. The President also warned local officials not to play politics with the peace and order campaign.

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